TEACHERS' PENSION PLAN

Pension News

INFORMATION FOR RETIRED EDUCATORS AND THEIR SURVIVORS FALL 2002

"We've not sat idly by waiting for better days"

Register at www.otpp.com to receive news electronically

Your pension is safe despite dismal markets

It was in last Spring's *Report to Members* that Claude Lamoureux, President and CEO, talked about market volatility, negative equity returns, and deepening investor uncertainty. Claude said that the high returns of the 1990s were well behind us and that achieving an average return high enough to fund the plan's future benefits would be a real challenge. That grim outlook has certainly come true.

"However, we have not sat idly by waiting for better days. As an alert and innovative investor, we have acted decisively to find value despite the dismal markets," says Claude.

This is what we've been doing of late to find value:

Shifted assets

We reduced exposure to stocks (or equities) during the first half of this year. Last year the asset mix policy called for 60 percent of assets to be invested in equities. This year, that policy was cut to 50 percent.

Continued on page 4

Inside this issue...

You asked us about the plan's watchdog and how to acquire a list of our investments 2

Annual pensions increase 1.6% 3

Taking it to the max—teaching after retirement 5

Who decides to use a surplus and who is on the hook for a deficit? 7

You asked us:

Q: *"...What is the plan doing to serve as a watchdog for our investments?" J.W.*

A: We have long been an activist for the interests of shareholders because we try to preserve share value to pay pensions. (See *Pension News*, Issue 26 Spring 2002; visit the Web site www.otpp.com and go to the "Newsroom" in the pull-down menu.)

More recently, the Teachers' pension plan has been instrumental in the creation of the Canadian Coalition for Good Governance. The Coalition includes Canada's largest pension funds, mutual funds and money managers.

"It's time to get beyond the rhetoric and work with those boards which do not represent the owners of corporations so that they listen to the expectations of those who actually own the companies they govern. As large investors, we have the resources to press for good governance, and smaller investors should benefit from our efforts. Our goal is to align the interests of boards and management with those of the shareholders like ourselves," says Claude Lamoureux.

Among other initiatives, members of the Coalition will:

- Review the composition and performance of boards
- Insist that key board committees have a majority of independent outside directors
- Share comments on the qualifications of audit committee members
- Support compensation schemes that reward employees for sustained performances
- Develop a common position on acceptable accounting standards and financial disclosure
- Work with securities commissions to strengthen regulations and with governments to strengthen criminal penalties.

The Coalition, which has 22 members, was created at the end of June and has met in September and October.

Q: *"Teachers' has a stellar reputation for its investment savvy. Can I get a list of the companies you invest with?" L.F.*

A: Each year we publish a select group of companies (investments over $50 million) in the *Report to Members*. You can also find a comprehensive list on our Web site under "Investments" in the pull-down menu.

A word of caution: Our liabilities, asset mix and time lines are significantly different than yours. Emulating our investment strategy is likely not the best strategy for you.

Claude Lamoureux has often recommended the book, *Winning the Loser's Game* by Charles D. Ellis (McGraw-Hill, $39.95). This readable classic, now in its fourth edition, explains how investors can avoid typical mistakes. ■

Effective January 2003

Annual pensions increase 1.6%

The annual inflation adjustment for 2003 is an estimated 1.6 percent.

The inflation adjustment applied to your pension is based on the Consumer Price Index (CPI). The method used to calculate the increase is prescribed in the Teachers' pension plan and is the same method used by the other major pension plans, including the CPP.

Recent news reports have inflation at about one percent higher than Teachers' inflation adjustment. Why the discrepancy? Statistics Canada provides the CPI comparing the costs of good and services in one month to the costs in the same month a year earlier. This method provides a snapshot of inflation compared to the same time last year.

Teachers' pension plan is required to calculate the annual inflation adjustment by taking the average CPI for the 12-month period ending September 2002 compared with the previous 12-month average.

How the inflation adjustment is calculated

Average CPI for 12-month period ending September 2002

minus 1 equals 1.6%

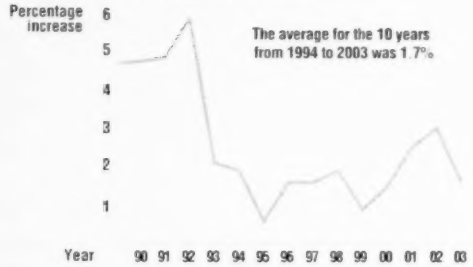
Average CPI for 12-month period ending September 2001

Comparing adjustment average to CPI, month-over-month

Over time, the two methods will generate about the same inflation adjustments.

AVERAGES	*TEACHERS' (%)*	*CPI (%)*
Last 25 years	4.5	4.4
Last 20 years	3.1	3.0
Last 15 years	2.6	2.6

Annual inflation adjustments paid to pensioners since 1990



Inflation adjustment prorated

If you retired this year, your inflation adjustment will be prorated to the number of months you have been collecting your pension. For instance, if you retired in June of 2002, you can expect an inflation adjustment of 0.8 percent because you would have been collecting a pension for half the year.

Watch for your statement

The details of the total increase to your pension for 2003 are contained in your January payment slip, which will be mailed to you at the end of January.

What is CPI?

The CPI is a weighted average of the cost of a basket of goods and services normally purchased by Canadian households. The basket includes food, clothing, housing, transportation and recreation. The weighted average means that some items are given more importance according to the proportion of household income spent on them. For instance, the cost of food generally uses more of the household income then the cost of recreation.

Statistics Canada considers the CPI as "a measure of inflation." ■

For more information about the Consumer Price Index visit www.statcan.ca

"We've not sat idly by waiting for better days"

From page 1

During the first six months of 2002 we moved more than $6 billion out of stocks and into fixed-income securities and cash.

Fixed income securities (or bonds) now represent 20 percent of the asset mix policy, double the allocation at the end of last year.

More active management

As much as 50 percent of all assets are being actively managed to make sure we take every opportunity to add value. As a result, the pension fund continues to do better than the markets in which we invest for both stocks and bonds.

We have also taken a more active stance on foreign currency management. This action has helped to add about $200 million in value in the first half of this year.

Real estate refreshed

The $11.4 billion real estate portfolio has been sharpened. This year our subsidiary Cadillac Fairview sold $300 million in properties that did not fit our strategy.

Infrastructure investments continue

We have expanded into assets that are an attractive alternative to public markets and offer the prospect of stable and positive long-term returns. Like real estate, these alternative investments are tangible assets. During the past 12 months, about $3 billion has been invested in electrical utilities, highways, airports and timberlands.

Mid-year returns negative but beating market

In the first six months of this year, the rate of return was –1.1 percent, compared with – 3.4 percent for the total fund benchmark.

Overall world equity markets continued to decline on a year-to-date basis. As at June 30, 2002, Standard and Poor's (S&P) 500 was –17 %, Canadian markets were down –6.3%, and Europe, Australia and Far East (EAFE) markets –8.1%.

These declines have been partially offset by fixed income markets that have earned 1.7 % returns for nominal bonds year-to-date and 8.7 % for real-return bonds which are linked to inflation.

"Overall, we are going through the worst markets in three decades."

Continued on page 6

Taking it to the max

You can teach to a maximum of 95 days per school year and collect your pension

For pension plan purposes, you're considered employed in education if you work in any capacity for a school board in Ontario or designated organizations, or teach at a designated private school in the province of Ontario or for the Ontario government.

Teaching after retirement includes jobs such as school librarian, exam marker and education consultant, as well as classroom teacher. If you're not sure if the re-employment rules apply to your situation, please call us or e-mail, inquiry@otpp.com.

Jane Murphy, a teacher-librarian in Newmarket, plans to teach after retirement.

It's your responsibility to notify us when you reach your 95-day limit, so it's wise to keep track of the days you've worked. Your pension is suspended the month after you exceed the 95-day limit.

Taking it to the limit? Here's a tip

You can teach to the end of the month in which you reach the 95-day limit without affecting your pension. For instance, if Judy, a retired teacher, reaches her 95-day limit on June 10, she can continue to teach to the end of the month without affecting her pension. This gives Judy about two more weeks of employment without affecting her pension. However, Judy needs to notify us when she reaches her 96th day so we have a record of the number of days she's employed.

Continued on page 6

Taking it to the max

From page 5

Teaching after retirement rules

The co-sponsors of the pension plan (the Ontario government and the Ontario Teachers' Federation) agreed last year to remove restrictions on the number of years pensioners can teach to the 95-day limit. The agreement is in effect until August 31, 2006.

CURRENT LIMITS	*LIMITS AFTER AUGUST 31, 2006*
Max. 95 days of re-employment in any school year.	**Max. 95 days in each of the first three years.** **These do not have to be consecutive years.** **After that, you can teach to a maximum of 20 days per school year.**

Retirees returning to work

Statistics Canada recently reported that almost half of the people who retire return to the work force, to either full or part-time jobs, within two years.

This is even more pronounced among younger retirees: 69 percent of retirees 50 to 54 return to the work force within two years. (from, "Retirees returning to the work force," by Dawn Walton, Globe and Mail, September 27, 2002). ■

For more information, visit the Web site at www.otpp.com and read the information memo, Teaching After Retirement. *You'll find the memo under "Publications," "Brochures" in the pull-down menu.*

Despite dismal markets, your pension is safe

From page 4

Overall, we are going through the worst markets in three decades. This is the third consecutive year of decline—something that happened only twice in the S&P index in the 20th century.

"As you hear all the doom and gloom surrounding investing today," advises Claude, "please bear in mind that your pension plan is continuing to work hard to maximize returns in these difficult markets and ensure payment of pensions today and in the future."

"As an alert and innovative investor, we have acted decisively to find value despite the dismal markets"

Your pension is safe

Negative investment returns will not affect your pension. Your pension will continue to be paid as promised, including annual inflation adjustments. ■

For more information, go to our Web site, www.otpp.com and look in the "Highlights" box for the investment update.

You'll also want to read about our latest investments making news, such as our involvement in the purchase of the Yellow Pages directories. This $3 billion deal is the largest private equity buyout in Canadian history.

Who decides how to use a pension surplus and who is on the hook when there's a deficit?

If you answered the Teachers' pension plan, you're incorrect. Read on.

It's the plan's co-sponsors, namely the Ontario government and the Ontario Teachers' Federation, who decide how to use a surplus, pay off a deficit, change benefits or contribution rates.

Quick guide to the main roles of the key players:

Teachers

- Contribute about 8.9% of salary, and in return receive a promise of a pension based on years of service (credit) and their average best-five years' salary. The Ontario government matches teacher contributions. In 2001 teachers contributed a total of $640 million, while the government of Ontario contributed $680 million. (The difference in the government's contributions is because of interest charges.)

Pensioners

- Collect pension entitlements, indexed to inflation, guaranteed for life. If a pensioner dies before his or her eligible spouse, a survivor pension, which is also indexed to inflation, guaranteed for life, is paid to the spouse. In 2001, we paid a total of $3.08 billion in benefits.

The co-sponsors: Ontario government, OTF

- Negotiate how to use the surplus or pay for a deficit. Only the co-sponsors can change benefits. Since 1993, $18.6 billion in surplus was used by the co-sponsors to improve benefits and eliminate special payments. Today no surplus remains.

  The six-member Partners Committee, which is made up of equal representation by the Ontario government and the OTF, negotiates changes to the plan.

Organizational roles

Ontario government

- Co-sponsor
- Shares surplus, responsibility for deficit
- Negotiates changes to the plan

OTF

- Co-sponsor
- Shares surplus, responsibility for deficit
- Negotiates changes to the plan

Teachers' Pension Plan

- Investor
- Administrator
- Cannot change benefits

Ontario Teachers' Pension Plan

- Governed by an independent board of directors. The Teachers' pension plan administers the plan and invests its assets. Teachers' pension plan cannot change benefits. ■

For more information about the mandate of the pension plan and a company profile, visit our Web site, www.otpp.com and go the "About Us" in the pull-down menu.

Focus group results

Great service, but few aware of our Web site

The results of this year's focus groups were encouraging. Pensioners told us they are pleased with the service they receive and they find the topics presented in *Pension News* to be relevant, the articles well written and the format easy to read.

We also learned that few pensioners had visited our Web site, or were aware they could receive this newsletter electronically. To register for your electronic copies, visit our Web site.

This year's focus group sessions were held in Guelph and Toronto in August. Thank you to those who participated. ■

Pension News

Ontario Teachers' Pension Plan Board
5650 Yonge Street
Toronto, Ontario M2M 4H5

Client Services

Phone: (416) 226-2700 or 1-800-668-0105

Fax: (416) 730-7807 or 1-800-949-8208

E-mail: inquiry@otpp.com

Web site: www.otpp.com

We appreciate your comments about anything you read in *Pension News*. Please contact John Cappelletti at (416) 730-5351 or 1-877-812-7989 or e-mail: john_cappelletti@otpp.com

This newsletter does not create any right to benefits. Your entitlements and those of your survivors are and will be governed by the language of the pension plan text. The information contained in this newsletter is not intended to be relied upon in relation to any particular circumstance.

Ce bulletin est disponible également en français.

ISSN 1180-3282

This cost 21 cents

Cost to produce *Pension News*: 21 cents per copy (this includes translation and the printing of the English and French versions.)

You can register for the electronic version of *Pension News*. It arrives about a week earlier and the pension plan saves about 30 cents on the cost of mailing. You can help reduce the cost of administering the pension plan by registering for your electronic copies at our Web site, www.otpp.com. You'll find the registration link on the home page in the "Highlights" box. You can cancel the electronic service at any time and resume receiving *Pension News* in the mail. ■

If you're still contributing to an RRSP, take note

If you're still contributing to RRSPs, the lower CPP reduction factor is a pension benefit enhancement that will shrink the RRSP room available to you beginning in January 2003. This affects you only if you plan to contribute to an RRSP in 2003. ■

Editor's note:

Thank you for the advice

I recently sent an e-mail to pensioners asking for the advice they would offer teachers preparing to retire. I sent the e-mail to more than 6,000 retired teachers who have registered to receive our publications electronically. I was deluged with wonderfully thoughtful and creative responses. My sincere thanks to those who took the time to share their wisdom and experience.

You can read a selection of these tips from retired teachers on our Web site, www.otpp.com . ■